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OPEC+ slashes production, saves oil industry from collapse

Up to 20 million barrels of oil per day could come off the market in combined efforts.

In a watershed moment for the oil and gas industry, OPEC and its allies in the OPEC+ group finalized a deal on Easter Sunday that, in conjunction with efforts from the G20 and International Energy Agency, could see up to 20 million barrels of oil per day removed from a severely oversupplied oil market. The deal is set to boost the oil price and provide some much-needed stability for an industry in crisis.

Initially announced Thursday, the agreement was delayed as Mexico refused their share of production cuts. The original OPEC+ deal would have seen a cut of 10 million barrels of crude per day from an October 2018 baseline, for an initial two-month period. With OPEC+ letting Mexico off the hook, the official OPEC+ cut now stands at 9.7 million barrels, as Mexico agrees to cut 100,000 barrels per day instead of 400,000 barrels per day, according to a press release by Africa Oil & Power Conference.

In reality, however, the OPEC+ deal will cut more than the quoted 9.7 million barrels, since current production levels are much higher than the October 2018 baselines used to calculate the production cuts. The deal sees Russia and Saudi Arabia absorbing the brunt of the cuts, each agreeing to cut their production down to 8.5 million barrels per day. Saudi Arabia's production stood at 12.3 million barrels per day, and Russia was producing 11.29 million barrels of oil per day in March. Both countries, however, used 11 million barrels per day as their baseline in the deal.

"These production adjustments are historic. They are largest in volume and the longest in duration, as they are planned to last for two years. We are witnessing today the triumph of international cooperation and multilateralism which are the core of OPEC values," said Secretary General of OPEC H.E. Mohammed Barkindo. Barkindo also noted that the OPEC+ deal paves the way for further collaboration with the G20.

In a meeting on Friday, the G20 nations also agreed to take action to stabilize the market. The United States, for example, is set to use the Strategic Petroleum Reserve to store vast quantities of oil. Additionally, the US will see production cuts of at least 2 million barrels as the market responds to a lack of demand. The US has also reportedly offered to take on an additional cut of 300,000 barrels per day on Mexico's behalf, although the details of how such a deal would play out have not been released.

The OPEC+ group is expected to request the G20 to cut over 3 million barrels per day of production. The G20 energy ministers agreed Friday to create a task force to monitor the situation and formulate strategies. The Texas Railroad Commission, the agency that regulates the state's oil and gas industry, is also scheduled to meet on Tuesday to discuss regulating formal cuts, though the US has largely maintained that the free market will determine oil production cuts.

US President Donald Trump tweeted his support for the OPEC+ deal on Sunday.

"This will save hundreds of thousands of energy jobs in the United States. I would like to thank and congratulate President Putin of Russia and King Salman of Saudi Arabia," he said.

Finally, in a reported, but not confirmed, side deal, Saudi Arabia, Kuwait and the United Arab Emirates could agree to reduce production by an additional 2 million barrels of oil per day.

OPEC has "Breathed Life" into Africa

The historic production cuts provide a much-needed financial boost to Africa's oil and gas producers, including Nigeria, Angola, South Sudan, Sudan, Gabon, Congo-Brazzaville and Equatorial Guinea, as the sudden drop in oil and gas prices coincided with the COVID-19 health crisis and the economic repercussions of closing businesses and restricting movement to deal with the pandemic.

In a statement, Nigeria's Minister of State for Petroleum Resources, Hon. Chief Timipre Marlin Sylva, said he expects the oil price to rebound by $15 per barrel in a short-term outlook.

"This also promises an appropriate balancing of Nigeria's 2020 budget that has been rebased at $30 per barrel," he said in a statement.

NJ Ayuk, Chairman of the African Energy Chamber, lauded the efforts of the OPEC+ deal, as a stable oil market will provide economic relief and save jobs throughout the continent.

"OPEC has hit a home run," Ayuk said. "OPEC has breathed life and given hope to African nations, oil workers, investors and the African business community. We need to focus on exploration soon again. Now we have the ball; we need to run with it and start the process of bouncing back. We need to defend the African oil industry like a junkyard dog in the face of a hurricane."

OPEC+ Cuts Respond to Slashes in Demand

Each nation, aside from Saudi Arabia and Russia, which are both cutting substantially more, is expected to cut 23 percent of production from May to June. Iran, Libya and Venezuela are exempted from the production cuts, and Mexico is only cutting 100,000 barrels per day.

After this initial two-month period, overall production cuts will lower to 8 million barrels per day from July to December and then lower to 6 million barrels per day from January 2021 to April 2022. The OPEC+ group will meet in July to discuss further action, if needed.

With about 40 percent of the world's population ordered to stay home to stem the spread of COVID-19, demand for oil and gas has decreased by about 30 percent, from over 100 million barrels per day to under 85 million barrels per day, according to the Energy Information Agency.

The International Energy Agency, which called for the G20 meeting of energy ministers on Friday, argued the market conditions were too much for OPEC+ alone to handle.

"The extreme volatility we are seeing in oil markets is detrimental to the global economy at a time when we can least afford it," said Dr. Fatih Birol, Executive Director of the IEA.

"Today's oil crisis is a systematic shock that threatens global economic and financial stability. It requires a global answer. That is why the G20 can be an indispensable forum for decisive leadership when it is urgently required," he added.

Brent crude was averaging $55.70 per barrel in February, but, with an oil price war and the impacts of COVID-19, both Brent and WTI have reached their lowest level in years, with Brent hitting $22.76 per barrel in March, its lowest price since November 2002.

